# CLEARDIAL INC.

Michael D. Stevens
President
Tel: (800) 837-0030 Fax: (800) 837-0080
PO Box 14250, Cleveland, Ohio 44114-0250

# Federal Communications Commission To Take More Comments On Billed Party Preference

DOCKET FILE COPY ORIGINAL

espite urgings from several major companies and associations, the Federal Communications Commission at its May public meeting issued a Further Notice of Proposed Rulemaking on billed party preference. This is at least the fourth time since 1986 that the FCC has taken comments on BPP.

Companies and associations that have staunchly opposed billed party preference recently had filed comments on the matter with the FCC in an effort to avoid further proceedings on the matter.

The Competitive Telecommunications Association and Bell Atlantic filed separate comments against BPP, while AT&T, Intellicall Inc., American Public Communications Council, CompTel, American Jail Association and Inmate Calling Services signed a joint statement against BPP.

In its individual comments, CompTel stated that "BPP is an idea whose time has passed," and, "The alleged benefits of BPP are extremely dubious and speculative, especially since the enactment of TOCSIA." TOCSIA mandated unblocking of access codes, branding, signage and allows FCC enforcement action against unjust or unreasonable rates.

CompTel stated that because of highprofile advertising campaigns, such as 1(800) COLLECT, 1(800) CALL-ATT, 1(800) OPERATOR, etc., consumers are becoming increasingly aware that they can reach the carrier of their choice without BPP. Because BPP would take at least three years to implement, during which time such advertising campaigns and consumer awareness would continue to escalate, BPP would be even more obsolete.

CompTel estimates that it would cost companies \$1.5 billion to \$2 billion to get BPP off the ground, plus annual operational costs. In its filings, CompTel stated that Frost & Sullivan Market Research estimates 63 cents additional cost per telephone call affected by BPP.

"BPP is an idea whose time has passed...the alleged benefits to BPP are extremely dubious and speculative, especially since the enactment of TOCSIA."

CompTel recommends dropping further BPP consideration in its closing remarks:

"BPP is an extremely expensive, unnecessary solution to a problem that no longer exists. Consumers can and do reach their carrier of choice with ease from anywhere, and competition in operator-assisted services is increasing. The commission should terminate this proceeding."

In its comments, Bell Atlantic stated that BPP will not improve fraud control, something that some proponents have tried to use as a justification for BPP.

Bell Atlantic stated, "Fraud perpetrators will continue to use dial-around to avoid detection. BPP is no improvement over the fraud procedures LECs have in place today. Inmate fraud will rise because without commissions being paid to them, penal institutions cannot pay for call control/fraud control technology."

In the aforementioned joint statement, signors stated that COCOTS will take heavy hits.

"Independent public payphone providers will suffer increased costs, stranded investment and substantial loss of revenue. In addition, they will see the benefits of BPP flow to their competitors—the LECs, who already control 90 percent of the payphone market. The loss of revenue to payphone providers caused by BPP will be a serious blow to payphone competition, a market opened to competition by the FCC only a few short years ago."

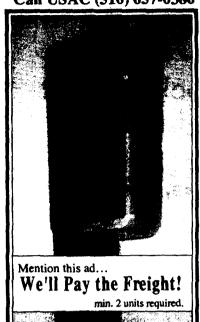
BPP will deal a major blow to aggregators, too, according to the joint statement. "Hotels, motels, universities, state agencies, jails and prisons all will suffer a variety of injuries at the hands of BPP The costs of providing telecommunications services will rise dramatically for these entities under BPP for several reasons such as: direct trunking of 0+ and 1+ aggregator calls jointly to presubscribed IXCs via special access will have to be abandoned in many cases (under BPP, 0+ traffic would have to be sent to the LEC and 1+ to the IXC, making the use of special access for aggregator traffic far less likely to be cost-effective); the more than \$1 billion investment in equipment and software spent to implement the unblocking mandate issued by the FCC pursuant to TOCSIA will be rendered obsolete by BPP, as all 0+ calls would be directed to the LEC; fraud control problems would be greatly exaggerated in some environments, most notably jails and prisons, by the loss of control of call processing by the aggregator; and the loss of commission payments from carriers competing to become the presubscribed IXC will rob aggregators of the ability to recover the costs of their telecom systems from the people who use them."

Major players against BPP are AT&T, CompTel, APCC, most user and aggregator groups, and local exchange carriers NYNEX, Bell Atlantic and BellSouth. In addition, hundreds of third-tier interexchange carriers oppose BPP.

Major players who favor BPP are interexchange companies MCI and Sprint, and local exchange carriers Pac Teb. Sprints are Tell, Ameritech and GISEABCDE



## Call USAC (510) 657-0386



Call For Volume Pricings

-- Seeking Regional DistributorsOffer Expires August 31, 1994- Limited Quantifies

#### THINKING OF BECOMING AN INDEPENDENT PAYPHONE PROVIDER, OR NEW TO THE INDUSTRY? ASK YOURSELF THE FOLLOWING QUESTIONS:

- Do I use Store and Forward or an OSP to my 0+/0 traffic, and which one?
- Do I file a tariff with the FCC and/or my state commission?
- Do I pay my LEC for 1+ or can I buy it for a lower cost from other carriers, and who?
- Am I interrested in saving up to 50% on the cost of refunds, and taking less time to distribute them?
- Am I really getting maximum profits from my payphone route?
- Are all the provisions necessary to protect my investment found in the location agreement?
- Have I secured Federal and State exemptions on my phone bills?

We can help you with each of the above subjects and more. Plus, our service includes a personal consultation at your office. For more information on how we can help you make more money with less effort, call or write me at the address below.

tax-free stock-for-stock swap valued at \$16.00 or more per PTEL share (depending on the price of IDB stock at the time of closing). The offer was roughly a 60 percent premium for PTEL stock, which had been trading at the \$10.00 level prior to the merger announcement. People's stock immediately rose to the \$13.75 level, and subsequently traded higher. reaching \$14.50, a new high for the year. Other payphone stocks appeared to be buoyed by this news, which was interpreted as indicating that IDB, itself a successful telecommunications company, believed the stocks were undervalued.

The bubble burst on May 10. Following a NASDAQ suspension of trading at the request of both IDB and Peoples Telephone management, the companies announced that it appeared unlikely that a merger would be achieved after all. In addition, Peoples indicated that first quarter financial results were expected to come in significantly below expectations in the investment community. When trading resumed, Peoples stock promptly fell 39 percent, closing at \$7.63 on the day, and has traded near that level since.

The accompanying table shows the performance of the public communications stocks for April, and the chart shows the price performance of the five payphone stocks since the beginning of the year. The impact of the Peoples/IDB announcements is obvious.

### Billed Party Preference: The Saga Continues

The Federal Communications Commission (FCC), at its regular meeting on May 19, postponed action in the two-year old Docket 92-77, dealing with Billed Party Preference (BPP). The extra time is to permit additional comments by interested parties. Our guess is that final FCC action will not be forthcoming before the fourth quarter at the earliest. Most readers of this publication will be familiar with the issue of BPP. But for those who are not, the following summary of the situation may be helpful.

BPP has potential implications for both independent public payphone (IPP) providers and alternate operator service (AOS) providers. Under present rules, it is the location owner who chooses the primary interexchange carrier (PIC) to which a payphone is presubscribed under the equal access rules. When a caller simply dials "1+" for sent-paid interstate long-distance, or "O" plus the number, to get an operator or automated "bong" tone, the payphone routes the call to the PIC. Owner-operators of IPPs receive a share of the revenues generated by such calls, and pay a commission on them to the location owner.

The current rules also require the IPP provider to permit users to reach the caller of their choice by, for example, dialing a "10XXX" code-"10222" for MCI, "10288" for AT&T, etc. Alternatively, the IPP provider can permit access to "800" access codes, such as 1-800 CALL ATT for AT&T, etc. (These calls are known as dial-around calls and IPP providers currently receive \$6.00 per phone per month from the interstate carriers as compensation for such calls, under an "interim" FCC order.) The problem with such access codes is that certain callers are simply unable to understand how to use them and are, therefore, unable to reach the carrier of their choice.

To "cure" this supposed problem, the notion of BPP has been invented. Under this proposal, the subject of FCC Docket 92-77, the telecommunications network, itself, would be required to "automatically" determine the carrier that the party to be

billed for the call wished to use, based on their selection of a PIC at their home or office. In the case of credit card calls, for example, this would require a data base that would associate every credit card number with the long-distance carrier to which the caller has presubscribed. In the case of collect calls, BPP would presumably

require the ability to associate every called number with the carrier to which that residential or business access line is presubscribed.

It is generally believed that imposition of BPP would have two effects. First, it would be expensive, requiring an extensive data base and inquiry system for all of the roughly 2.2 million payphones in the country. Presumably, virtually every interstate call made from a payphone would require a database inquiry, solving the process of call completion somewhat. Estimates

of the cost to implement a BPP system run upwards of \$1.5 billion, with annual operating expenses estimated at \$400 million or more.

Second, it is generally believed that a significant amount of traffic would be diverted from the AOS companies, which in turn could reduce the revenue generated by IPPs, absent an alternative method of compensation. Under today's rules, 100 percent of the interstate traffic generated by callers who do not know how or who don't care to

access an alternate carrier to the payphone PIC, is routed to the PIC or AOS chosen by the IPP provider.

The most recent report from the FCC indicates that, as of June 1993, approximately 72.4 percent of the 140.6 million access lines in service in the United States were presubscribed to AT&T, 15.1 percent to MCI, and 6.1 percent to Sprint. The

The state of the s

remaining 6.4 percent were attributed to "all other" carriers. So far as we know, there are virtually no access lines that are presubscribed to AOS companies. Probably, similar PIC choices characterize calling cards and credit cards, although we have no direct statistics to depend on. Because virtually all potential users of payphones are presubscribed to one of the "big three" interstate carriers (AT&T, MCI, and Sprint), BPP implies that much or all of the "noncoin" revenue generated by IPPs and

currently carried by AOS providers could be lost under BPP.

Our opinion has been that although BPP is one of those ideas that sounds good on first hearing, it would be extremely impractical to implement. Our expectation is that BPP will be supplanted by some reasonable restrictions on the price that can be charged by IPP providers,

probably by limiting their rates to those charged for calls originated from payphones operated by the local telephone company, plus some surcharge probably expressed in percentage terms. If, on the other hand, BPP is implemented in any meaningful way, the critical question for the IPP providers is what changes would be made in what is now called dial-around compensation. Under BPP, every interstate call would be a dial-around call, and we would expect some modifications in the compensation

arrangements to IPP providers to compensate for lost revenue.

In any event, until the FCC finally makes a decision, BPP is a potential risk factor that investors in the IPP industry should consider. We believe it is likely to be resolved in a manner favorable to the industry, and it is even possible that BPP could turn out to be a benefit to the IPP providers. But as long-term observers of the telecommunications industry well know, predicting the impact of FCC actions is a risky business.  $\Box$